

SBP Made Easy



Your **2004**
Road Map
to the
Survivor
Benefit
Plan

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MILITARY OFFICERS
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Introduction

This booklet offers simple, concise answers to many routine questions about the uniformed services Survivor Benefit Plan (SBP). Although directed primarily to the soon-to-be retired, much of the content also applies to those already retired (those who became eligible to retire after Oct. 1, 1985).

MOAA believes SBP is the best “insurance” that most retiring members of the uniformed services can buy. SBP is protected against inflation and subsidized by the federal government. You generally won’t find those characteristics in commercial insurance policies or annuities. If you could, the cost would be prohibitive.

Beware of suggested alternatives to SBP. For years, insurance agents have tried to convince potential retirees to decline SBP and purchase insurance or other financial plans. The high commission they receive from your premium may influence their efforts. In comparison, SBP counselors receive no commissions, and the government pays up to 40 percent of the actuarial cost.

In some ways, SBP is comparable to term life insurance, though you won’t find any term insurance policies promising inflation-adjusted income for life. SBP has no cash value, and this reduces the cost of the plan.

If the beneficiary becomes ineligible before the member’s death, premiums have not been wasted.



The member was insured against death in those years.

When you buy term life insurance and don't die, home insurance and your home doesn't burn down, or car insurance and you don't damage your car, the insurance company does not refund premiums. Neither does SBP.

SBP guarantees that a portion of your retired pay will continue to your spouse regardless of when death occurs. This amount is not dependent on the cash value of any fund.

SBP provides guaranteed lifetime income protection that is much higher and much less expensive than the guaranteed protection offered by other products or companies. If your spouse depends on your income, then, in most cases, you should make this guaranteed protection the cornerstone of your estate. But remember that SBP by itself is not sufficient estate protection for most people. Most likely, you will need other insurance or financial planning to supplement SBP. Remember, there are supplements to SBP, but no replacements.

Think hard before declining participation in SBP. Do not make a mistake that you may well regret beyond a lifetime.



For More Information

This brochure provides answers to many routine questions about SBP. Potentially, hundreds of other questions about SBP need answers or clarification. MOAA's Member Service Center can try to provide answers to other questions.

Call 1-800-234-6622, send e-mail to beninfo@moaa.org, or visit MOAA's Web site at www.moaa.org/spouse/ for more information. By calling the toll-free number above, MOAA can also send you *SBP: Yesterday & Today*, a comprehensive booklet that addresses SBP.

Three Basic Points About SBP

1. SBP addresses the possibility that your spouse will survive for many years after you die.
2. SBP guards against the risk that high inflation will eat up the purchasing power of a lump sum or flat rate annuity.
3. SBP is not intended to provide income for your old age or to create a nest egg for your surviving children.

Eligibility for SBP Coverage

QUESTION I'm on active duty. If I die before retirement, is my spouse covered under SBP?

ANSWER Yes. You are covered under SBP if you die while on active duty and are married or have dependent children.

QUESTION What categories of persons are eligible for coverage under SBP?

ANSWER

- Spouse
- Spouse and children
- Children only
- Former spouse
- Former spouse and children
- Persons with an insurable interest

QUESTION Are grandchildren eligible for coverage under the SBP Program?

ANSWER Yes, but only if documentation can be provided that substantiates that the grandchildren live with and are supported by the military grandparent.

Note: This situation can become very technical. Discuss your specific situation thoroughly with the Defense Finance and Accounting Service, Cleveland Center or Service Finance Center.

QUESTION What is an insurable interest election?

ANSWER This is an election that can be made by the unmarried retiree who might want to provide for a relative (including dependent children) or other person who could be hurt financially if the retiree dies.

QUESTION

Although I am eligible to participate in SBP as a member of the uniformed services, does my nonmilitary spouse have any say in the election process?

ANSWER

Yes. Your nonmilitary spouse can veto your election should you elect to not participate in SBP or elect not to participate at the maximum level. Every retiring member is automatically enrolled in SBP for full coverage unless the spouse consents in writing to reduced coverage or no coverage.

QUESTION

If, as an eligible SBP participant, I elect not to participate (with my spouse's consent), can I participate at a future date subsequent to retirement?

ANSWER

No. The election you make prior to retirement is irrevocable after you retire.

QUESTION

Let's say I'm an eligible SBP participant, married with children at the time of retirement, and, with my spouse's consent, choose children-only coverage. May I elect spouse coverage in the future or, should my spouse predecease me, for a new spouse acquired in the future?

ANSWER

No. If you were married with children and elected (with the spouse's consent) children-only coverage, the current spouse or a new spouse can never be covered under the plan.

QUESTION

If, as an eligible SBP participant, I am married with children at the time of retirement, and with my spouse's consent choose spouse-only coverage, may I elect child(ren) coverage in the future should my spouse predecease me?

ANSWER

No. Once this election is made, it cannot be changed.



Monthly SBP Annuity

QUESTION

How much of my military spouse's retired pay will I receive at his or her death if we participate in SBP at the maximum level?

ANSWER

Fifty-five percent of gross military retired pay until age 62 (eligible for Social Security); 35 percent of gross military retired pay thereafter, plus any Social Security cash benefits the spouse is entitled on the military member's earnings or the spouse's earnings, whichever will pay the larger amount.

QUESTION

What is the minimum amount of retired pay I can choose to have my spouse's annuity based on?

ANSWER

It can be any amount between \$300 a month and full military retired pay. The monthly benefit for annuity is 55 percent of the base amount until age 62 and 35 percent after age 62 for surviving spouses.

QUESTION

I do not have a spouse and will elect child-only coverage. If I die while the children are still eligible for the annuity, how long will they receive the annuity?

ANSWER

Children are paid the annuity in equal shares until they reach age 18 (or 22 if full-time students). An incapacitated child will receive the annuity for life without any reductions for Social Security, provided the child never marries. As each child reaches the age when entitlements no longer exist, the annuity is divided equally between the remaining eligible children.



Calculating SBP Monthly Costs

QUESTION

How do I compute SBP costs where spouse-only coverage is elected at the maximum amount?

ANSWER

The cost for spouse-only coverage is 6.5 percent of gross military retired pay if the maximum election is made.

QUESTION

If I elect less than gross military retired pay, how are the monthly costs calculated?

ANSWER

In 2004, the first \$595 is at the rate of 2.5 percent. Any amount above \$595, up to \$1066, is at the rate of 10 percent. This threshold amount increases each year by the same percentage that basic pay increases. In 2004, for base amounts more than the threshold above, the cost is 6.5 percent of the total base amount.

QUESTION

How is the monthly cost calculated for child(ren) coverage?

ANSWER

Additional costs for children are based on the age of the youngest child and the ages of both spouses and therefore varies.

Example: Retiree, 45, spouse 40, and youngest child 5 — monthly cost for child coverage is 6.6 cents per \$100 of coverage. As you can see, the child cost is minimal and should never be turned down.

QUESTION

How are costs for an insurable interest election calculated?

ANSWER

The cost for an insurable interest election is considerably more expensive — it is 10 percent of the gross military retired pay plus an additional 5 percent for each full five years the beneficiary is younger than the retiree up to a maximum of 40 percent of your gross military retired pay.

QUESTION

Are SBP costs affected by cost-of-living increases to military retired pay?

ANSWER

Yes. SBP costs, as well as the value of the SBP annuity and the annuity itself, increase with cost-of-living increases authorized for military retired pay.

QUESTION

Are SBP monthly premiums suspended when there is no longer an eligible spouse?

ANSWER

Yes. The payments will start again on the one-year anniversary date of the remarriage when the new spouse becomes an eligible beneficiary, provided you do not withdraw from the program during this one-year period.

Changes in SBP Coverage

QUESTION

Can I terminate SBP spouse coverage at any time after I retire?

ANSWER

Yes, between the end of the second year of retirement and the end of the third year of retirement, with spouse's consent. Should your spouse predecease or divorce you and you remarry, you can terminate coverage at the time of remarriage without consent of the new spouse (the new spouse must be notified), but you can never again participate in the plan.

QUESTION

Can an insurable interest election be changed?

ANSWER

Yes, to cover a newly acquired spouse or child. The change must take place within one year after marriage or acquiring a child anytime during the same year. An insurable interest election can also be canceled at any time except for an insurable interest election that covers a former spouse. No refunds of payments are made at any time if an insurable interest election is canceled.

QUESTION

Can SBP coverage be terminated because of a service-connected disability rated as total by the Department of Veterans Affairs (VA) and the certainty of Dependency and Indemnity Compensation (DIC) for my spouse being payable by the VA?

ANSWER

Yes, with the consent of your spouse. In cases where DIC is involved (DIC reduces the SBP annuity dollar for dollar), if the DIC amount is more than the SBP annuity, the surviving spouse is entitled to a refund of all the SBP payments. If SBP exceeds the DIC amount, the surviving spouse will receive the difference between the SBP annuity and DIC, plus a refund of SBP payments for that portion of the SBP annuity not received.

QUESTION

If I'm receiving an SBP annuity and I remarry, is the SBP annuity lost forever?

ANSWER

No. If remarriage occurs before age 55, the annuity is suspended and can be reinstated if the remarriage ends by death or divorce. If remarriage occurs at age 55 or older, the annuity continues uninterrupted for the duration of the spouse's life.



Supplemental SBP Coverage

QUESTION

What is SSBP?

ANSWER

This program allows you to replace a part or all of the SBP annuity lost at age 62.

QUESTION

Who can purchase SSBP?

ANSWER

Anyone who elects spouse or former spouse coverage at the maximum level (55 percent of gross military retired pay).

QUESTION

Please explain how SSBP costs are calculated.

ANSWER

As noted previously, the SBP annuity is reduced from 55 percent of gross retired pay to 35 percent at age 62. SSBP allows you to replace that loss in 5 percent increments with various costs depending on your age.

Example:

Age	50	55/35	55/40	55/45	55/50	55/55
		6.5%	7.94%	9.38%	10.82%	12.26%

Note: You can obtain the specific cost for each age level from your Defense Finance and Accounting Service or Service Finance Center or MOAA's *SBP: Yesterday & Today* booklet.

QUESTION

Can SSBP be dropped at any time?

ANSWER

No. SSBP premiums will be increased like SBP premiums and suspended whenever SBP premiums are suspended.



QUESTION

Is SSBP as good a deal as the basic SBP?

ANSWER

No, because it is not subsidized by the government. This doesn't mean it's a bad deal, just that it has to pay for itself like commercial insurance programs.

Other Questions

QUESTION

How does SBP work where a former spouse is involved?

ANSWER

This question can involve a very detailed answer. Contact MOAA at 1-800-234-6622 for the booklet *Uniformed Services Former Spouse Protection Act—A Guide to Eligibility and Entitlement*.

QUESTION

Can a surviving spouse receive both the uniformed services SBP annuity and a civil service/FERS SBP annuity?

ANSWER

Yes, provided the uniformed services member did not waive military retired pay for a combined civil service annuity.

QUESTION

I am on active duty and eligible for retirement. So is my spouse, who will eventually retire, too. We have two young children. Should I choose spouse and children coverage at the time of retirement?

ANSWER

Generally, you should elect child-only coverage. However, each situation in this category of marriage must be considered individually.

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